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Svetozar (Steve) Pejovich

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ON THE PRIVATIZATION OF "STOLEN GOODS" IN CENTRAL AND EASTERN EUROPE

Svetozar (Steve) Pejovich*

Professor Emeritus

Texas A&M University

College Station, Texas

and

Senior Fellow

International Centre for Economic Research

Torino, Italy

Abstract.

Many scholars assert that the process of privatizing state-owned firms in Central and Eastern Europe has been a success because privatized firms are performing better than they did before. The assertion is an empty piece of poetry. To begin with, privately owned firms are more efficient than state owned firms. Hence, the evaluation of the process of privatization in Central and Eastern Europe does not depend on some measured efficiency of privatized firms. The evaluation of privatization should be based on the contribution of privatized firms to the attainment of two major initial objectives of institutional restructuring in post-communist Central and Eastern Europe: the acceptance of capitalism and the development of free-market, private-property institutions. The paper argues that the privatization of state-owned firms has failed to contribute to those two objectives. Analysis attributes this failure of privatization to the neoclassical model, the absence of de-communization in the region, and the unwillingness of new rules to assign the value of state-owned firms to their rightful owners.

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Privatization as a Major Factor in the Process of Transition

In the late 1980s, Central and East European countries (hereafter C&EE) started the process of institutional restructuring. The intention of new leaders was to transform C&EE countries into free-market, private-property economies. The transition to capitalism seemed an easy goal to pursue. Most citizens seemed willing to bear the cost of restructuring, and pro-free market parties enjoyed considerable political support. A principal suggestion coming from the West was "privatize, privatize, privatize." An IMF publication asserted that "A mass privatization of the state enterprise sector is the centerpiece of the transition to a market economy."[1] It is fair to say that the privatization of state-owned firms, most of them weighed down with the culture of paternalism, incompetent managers and outdated technologies, became a top priority of new leaders in C&EE, their Western advisors, and international financial institutions.

By 2000, the private sector was responsible for more than half of GDP in the region, ranging from 80% in Hungary to 20% in Belarus.[2] However, mounting evidence suggests that new, never-privatized, enterprises have been the most important contributing factor to this increase in the share of the private sector. As for privatized firms, the consensus seems to be that they have improved their performance. However, improved efficiency of privatized assets is not a reason to claim that the privatization of state-owned firms has been a success in C&EE. Ever since the days of Adam Smith, theoretical research and historical evidence have demonstrated the superiority of private over state ownership of resources. Yet, some people have managed to misread the evidence. In 2004, a World Bank publication says:

> In many ways privatization in the early years was a leap of faith…there was neither great theoretical justification not hard evidence at the beginning of the 1980s that the performance problems of state enterprises could be altered by change in ownership. Thus, the bulk of privatization before 1992-93 took place in the absence of empirical support.[3]

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[1] Odling-Smee, J. et.al, "Russian Federation," *Economic Review*, IMF, April 1992, p.35.
[2] Mitra, P., Selowsky, M., et.al. (2000), *Transition-The First Ten Years: Analysis and Lessons for Eastern Europe and the Former Soviet Union,* The World Bank, p. 6.
[3] Kikeri, S. and Nellis, J (2004), "An Assessment of Privatization," *The World Bank Research Observer*, 19, no 1, p.92.

Eventually, the authors of this study discovered “mounting empirical evidence of privatization’s benefits” (p.113) but still claimed that “two decades of experience have not settled the debate over how much ownership matters”(p. 106).

The paper does not deny that the privatization of state-owned firms has delivered some important results. However, the evaluation of the results of privatization cannot depend on showing that privatized firms are doing better than before. The basis for evaluating privatization should be its contribution to the attainment of two initial objectives of institutional restructuring in C&EE. Those objectives are the acceptance of capitalism and the development of institutions (especially private property rights) that create *incentives* for individuals to seek and exploit all the potential gains from voluntary interactions.

The paper argues that the privatization of state-owned firms has failed to attain those two objectives. It suggests that three critical factors responsible for the failure of privatization are the reliance on neoclassical economics, the absence of de-communization in C&EE, and the unwillingness of new elite in the region to enforce the right of ownership in state-owned assets.

The Role of Neoclassical Economics

Neoclassical economics, mostly macroeconomics and econometrics, provided the general framework for the transition of C&EE countries from socialism to the free-market, private-property economy,[4] including the privatization of state-owned firms. While neoclassical economics has made numerous critical (particularly in microeconomics) contributions to our understanding of social and economic issues, many property rights and public choice scholars have regarded neoclassical economics as ill-suited for informing the institutional restructuring in Eastern Europe. An important reason for their attitude is the failure of neoclassical economics to account for the effects of alternative institutions on transaction costs and behavioral incentives.[5] Moreover, ignoring the well documented public choice research, most macroeconomic models consider the state as a cooperating partner in the process of institutional restructuring. In addition to legitimizing state intervention, this consideration creates incentives for the formation of rent-seeking coalitions.

The assumption of zero transaction costs means that transition strategies did not internalize the incentive effects of different institutions on the results of privatization. Managers of privatized firms were expected to quickly recognize business opportunities, evaluate their consequences, and make the wealth-maximizing choices. If the first sale had failed to put privatized firms in the hands of the highest-valued users fast and accurate pricing of productive assets would have quickly brought about an efficient outcome. In general, the carriers of institutional change in C&EE did not consider that the privatization of state-owned firms should await the development of a free-market for institutions.[6] As argued elsewhere, to the rising strength of pro-

[4] I use the terms capitalism and the free-market, private-property economy interchangeably.

[5] Andrew Schotter wrote: "The only institutions existing in [the neoclassical model] are markets of the competitive type in which all information on the economy must be transmitted through the prices formed in these markets. The economy is therefore assumed to have ...none of the many social institutions that are created by societies to help coordinate their economic and social activities by offering information not available in competitive prices." Schotter, A. (1983), "Why Take a Game Theoretical Approach to Economics," *Economie Applique* 36, p. 675.

[6] A well-functioning market for institutions has two major functions: to create incentives for institutional innovation and to reduce the costs of adoptive behavior. The former provides individuals with freedom to seek changes in the rules of the game. The latter gives the community as a whole freedom to accept or reject those changes voluntarily.

collectivist parties in C&EE[7] is a major consequence of the failure of initial transition strategies to focus on the development of free-market for institutions.

In a real world, policies that ignore the incentive effects of different institutions are costly. Indeed, as early as 1991, a leader of the market–oriented wing of the old solidarity coalition in Poland said, "The laissez-faire theory has not proven right. We have got to have the state intervention. The question is how deep it should be."[8] In 1995, Krasznai and Winiecki remarked, "The number of confused people, convinced that all our economic problems started in 1989, seems to be quite large.[9] By mid-1990s, the role of governments in the C&EE economies began to increase in the earnest. Commenting on economic trends in Slovakia, Jan Oravec said: "we can say that in 1993, the Slovak economy and society were less regulated than in 2003."[10] A Serbian weekly, Ekonomist Magazine, noticed that not much has changed since the supposed end of socialism. Serbian government runs the economy, Serbian ministers run business firms, and the governor of the Serbian National Bank runs commercial banks.[11]

A major consequence of neoclassical economics was to shift the evaluation of the results of privatization away from the incentive effects of alternative institutions on economic performance and toward standard quantitative benchmarks such as economic growth, employment, unemployment and income per capita. That is, the basis for the evaluation of privatization has become the *results rather than the process through which voluntary interactions are carried out.* And the focus on the results of economic activities opens the door to government interventions and *dirigisme*.

The evaluation of economic performance based on the results alone could be misleading. Economic theory, empirical evidence, and two major economic indexes have demonstrated that a sustainable economic performance depends on the incentive

[7] Pejovich, S (1994), "The Market for Institutions vs. Capitalism by Fiat: The Case of Eastern Europe," *Kyklos*, 47, pp. 519-520.
[8] Zbigniev, J., *Dallas Morning News*, August 4, 1991, p. A28.
[9] Krasznai, Z. and Winiecki, J., "Formal and Informal Constraints in Transition to the Market: Costs of Neoclassical Utility Maximization," *Communist Economies and Economic Transformation*, 7, 1995, pp. 246
[10] Jan Oravec, "Liberalization of Economy and Privatization of Society," unpublished paper, 2004, p.5.
[11] *Ekonomist Magazine*, No 221, August 16, 2002, p. 7.

effects of the free-market, private-property economy.[12] The centrally planned economy of USSR, the labor-managed economy of Yugoslavia, the cartelized economy of Japan, the social market economy of Germany, and the welfare state of Sweden have all experienced high growth rates. However, those growth rates turned out not to be sustainable. On the other hand, the American model, which has done a better job of maintaining credible and stable property rights, has been able to sustain, with many ups and downs, a steady rate of economic growth for over two hundred years. We can then say that growth rates as well as other standard measurements of economic performance in C&EE countries (and the world) should be expected to rise and fall as their respective institutions get closer to or fall away from the institutions of capitalism. James Gwartney, one of the founders of the Fraser's Economic Freedom of the World Index, wrote:

> The maintenance over a lengthy period of time of institutions and policies consistent with economic freedom is a major determinant of cross-country differences in per capita GDP…cross-country differences in the mean rating during 1980-2000 explain 63.2 percent of the cross-country variations in 2000 per capita GDP.[13]

[12] See the Index of Economic Freedom (Heritage Foundation and Wall Street Journal) and Economic Freedom of the World Index (Fraser Institute). Both indexes are published annually.

[13] Gwartney, J. (2003), "What Have We Learned from the Measurement of Economic Freedom," paper presented at the conference on *The Legacy of Milton and Rose Friedman's Free to Choose: Economic Liberalism at the Turn of 21st Century*," Federal reserve Bank of Dallas, p .3

The Failure to De-Communize C&EE

The initial objective of institutional restructuring in C&EE was the transition from socialism to capitalism. It is then useful to identify some critical differences between socialism and capitalism that the process of transition has had to deal with. In socialism, the political-scientific elite determines the desired outcome. In a free-market, private-property economy, individuals are the only judges of their own ends. The rules of the game in socialism seek to coerce individuals to pursue the desired outcome. The rules of the game in capitalism seek to create an institutional environment conducive for individuals to pursue their own ends. Capitalism emphasizes the rules that reward performance, cultivates risk-taking, promotes individual rights, and supports the behavior based on self-interest, self-responsibility and self-determination. Socialism supports income redistribution, social insurance coverage, mandated educational choices, and regulation of competitive markets. In socialism, a display of concern for "the people" replaces the call for individual rights.[14] Finally, in capitalism, *the process through which voluntary transactions are carried out judges the efficiency of the allocation and use of resources.*

Those differences between the two systems indicate that it is misleading to compare capitalism and socialism in terms of their technical performances (e.g., the allocation of resources). Capitalism and socialism represent two different ways of life. The process of transition from socialism to capitalism is then a legal and cultural issue rather than a mere technical one. By implication, the results of institutional restructuring depend on the carriers of change and the incentives under which they operate.

[14] The term people, a favorite of all socialist leaders, is a mere facade of words behind which the rulers hide their own private ends.

Communist parties in C&EE were not outlawed. De-communization did not happen in C&EE the way denazification had happened in Nazi Germany at the end of the World War II. The National Socialist party was outlawed, its top leaders were sent to the gallows or prisons, and lesser functionaries (particularly members of SS) were barred from holding important positions in public life. However, the cold war created a strong demand for German scientists, intelligence officers and business leaders. Instead of continuing to send war criminals to prisons, the West and the East began to compete for their skills. Eventually, the process of denazification petered out. However, even a partial denazification eliminated a large group of well-positioned people from the transition process in Germany, a group whose comparative advantage was in operating an arbitrary state.

In contrast, Communist Party leaders in C&EE were not brought to justice. Former nomenklaturists were not excluded from public policy making. Indeed, the carriers of institutional restructuring in C&EE include members of the old ruling elite. And those are the people whose comparative advantage is in policies that favor collectivism and *dirigisme*. Their presence in political and economic decision making bodies explains the emphasis on quantitative data in evaluating the results of transition as well as the rising role of governments in C&EE. I conjecture that the strongest evidence of the influence of former nomenclaturists is a slow decline in the stability and credibility of property rights.

According to the Index of Economic Freedom, the stability and credibility of property rights in all C&EE countries fell from 2.9 in 1996 to 3.4 in 2004. Scales run from 1 (the best) to 5 (the worst).[15] The Index covers nine categories, the credibility and stability of private property rights being one of them. Table 1 breaks down changes in the rating of private property rights between Central Europe including the Baltic States on the one hand, and Eastern Europe including the Balkans on the other.

The comparison between the mean-rating of private property rights and the over-all mean rating (in parenthesis) for those two groups of countries suggests that the new

[15] See *The 2004 Index of Economic Freedom,* The Heritage Foundation and the Wall Street Journal.

ruling elite in C&EE has a strong bias against the credibility and stability of private property rights, which is one of the most basic institutions of capitalism. While the overall mean rating of the first group of countries has improved significantly between 1996 and 2004, the credibility of property rights has remained about the same. At the same time, while the average rating of all countries in the second group has remained about the same, the credibility of property rights has deteriorated.

Table 1
Credibility and Stability of Property Rights in C&EE, 1996 and 2004

Country	2004	1996
Estonia	2.0	2.0
Lithuania	3.0	3.0
Latvia	3.0	3.0
Czech Rep.	2.0	2.0
Slovakia	3.0	3.0
Hungary	2.0	2.0
Slovenia	3.0	4.0
Poland	3.0	2.0
Averages	**2.6 (2.5)**	**2.6 (3.1)**
Croatia	4.0	3.0
Bulgaria	4.0	3.0
Moldova	3.0	3.0
Albania	4.0	3.0
Russia	4.0	3.0
Ukraine	4.0	4.0
Romania	4.0	4.0
Belarus	4.0	3.0
Bosnia	5.0	NA
Macedonia	4.0	NA
Serbia&Mont	4.0 (2003)	NA
Averages	**4.0 (3.5)**	**3.2 (3.5)**

The following quotes from the Index of Economic Freedom confirms that the credibility and stability of private property rights is a problem in C&EE:

> Property and contractual rights are recognized [in Romania], but enforcement through Romanian courts is difficult…
>
> Protection of property rights in Russia is weak…
>
> The legal system [in Slovakia] enforces property and contractual rights…but decisions may take years, thus limiting the utility of courts for dispute resolutions.[16]

[16] Ibid, The Heritage Foundation, pp.338, 340 and 358.

Who Owns State-Owned Firms in C&EE, and Why It is Important?

There is a major difference in the ownership of state-owned assets in the West and C&EE. In the West, public leaders acquire state-owned assets within the constraints of their constitutions. Given constitutional constraints, the presumption is that public leaders have the consent of their citizens to acquire property, to sell it, and to allocate the proceeds. The transfer of state-owned assets occurs in a market-friendly and well-established institutional environment. A market-friendly and well-established institutional environment means that the transaction costs of moving privatized assets to higher-higher valued uses are low. That is, if privatized assets were not sold to the highest-valued users the prevailing incentives would move those assets toward more productive owners.

In former socialist states, state-owned assets had been either stolen from their legitimate owners (via nationalization, expropriation and confiscation) or produced by socialist planners at the request of communist leaders. The presumption is that the former leaders had only the consent of party members to acquire, produce, and use productive assets. All other citizens were compelled to bear the costs of pursuing their rulers' preference. The true owners of state-owned assets are then all individuals who were forced to bear the costs of producing state-owned assets. That group of individuals includes all citizens except those who joined Communist Party before 1989 (hereafter: communists).

De-communization didn't happen in C&EE. Thus, the fact of life is that the term all citizens has to include communists as well. This adjustment has both current as well as future costs. By remaining in public life, communists have raised the costs of transition to capitalism. Depending on the relative strength of the old guard, which is greater in the former USSR and the Balkan countries than in central Europe and the Baltic States, the growth of pro-collectivist parties in the region is a consequence of those costs. As for future costs, the failure to exclude communists from public life reduces the costs of careerists and opportunists to join oppressive regimes in the years to come.

The privatization of business firms in C&EE is then different from the privatization of state-owned firms in the West. High transaction costs inform us that privatized assets are neither in the hands of their highest-valued users nor are likely to move into their hands. Moreover, privatization in C&EE is expected to improve economic efficiency of state-owned assets in institutional environments that differ from those in the West. First, institutional environments in C&EE have yet to become market-friendly. Second, after several decades of lawless socialism, it is going to take long time, lots of resources (e.g., training new judges) and willing governments to convince citizens that the rule of law and democracy could be for real. In fact, enforcing the law in C&EE has an important educational function.

Methods of Privatization. Major methods of privatization in C&EE have been direct sales, equity offerings, contracts with strategic (foreign) partners, and internal buyouts by managers and/or employees.[17] Those methods are not equal in terms of their expected economic efficiencies. The initial objective of direct sales was to sell state-owned assets to foreign or domestic buyers. In addition to importing of new funds, foreign partners and direct buyers from abroad bring in technical and managerial skills that are in the short supply in C&EE. In many C&EE countries, powerful local interests, managers of business firms and employees associations have, for reasons of their self-interest, opposed or slowed down the direct sale of state-owned assets to foreign buyers. Successful domestic buyers who show too much independence from politicians and bureaucrats are often suppressed, sometimes jailed (like in Russia), and almost always over-regulated and over-taxed. It is fair to say that cultural and legal constraints have reduced the efficiency of direct sales privatization.

Three factors constrain the transition to capitalism through equity offerings. Those factors are the lack of institutional development that would make financial markets more transparent, legal changes that favor the protection of creditors at the expense of shareholders, and the failure of decision-makers to recognize that the protection for individual shareholder depends on cheap “exit” rather then “voice” (i.e., one man, one vote).[18] The protection of creditors at the expense of shareholders discourages the dispersion of shareholding in favor of concentrated ownership. The privatization

[17] The following section discusses the voucher privatization.

[18] In a very interesting and well documented paper Katharina Pistor argues that the emphasis on the protection of creditors is stronger in C&EE countries that have been influenced by German and French legal systems. See Pistor, K. (2000), “Patterns of Legal Change: Shareholder and Creditor Rights in Transition Economies,” *European Bank for Reconstruction and Development*, Working Paper No. 49.

through equity offerings then loses the benefits of dispersed shareholding. Those benefits include creating the funds for economic growth without a concentration of economic power, the development of a middle class with diversifiable stakes in the economy, and the ability for individuals to reduce the risk (i.e., increase the incentives) of innovation through diversification.

The tendency in most C&EE countries is to give managers and employees a large number of shares (free or heavily discounted) in their respective enterprises. According to a World Bank study nine out of eighteen C&EE countries have used internal buyouts as their primary or secondary method of privatization.[19] This method of privatization is both morally wrong and economically inefficient. It is morally wrong because there is no compelling evidence that employees of socialist firms were paid less than their opportunity costs. Moreover, state-owned firms in the socialist years had been known for the poor quality of output, shirking employees, and inefficient managers. Thus, society has no reason to compensate them. Arguably, the employees and managers of state-owned firms should, perhaps, compensate the rest of society.

Economic inefficiencies of management-employees buyouts are also quite serious. The evidence is that the labor-managed firms maintain excessive levels of employment, make inefficient investment decisions, and are low on the skills required to survive in a market-friendly institutional environment. Thus, most of labor-managed firms require subsidies in order to survive. Managers and employees of those firms then have incentives to make deals with politicians and bureaucrats. Politicians and bureaucrats, in turn, have incentives to offer subsidies (paid by others) to managers and employees in exchange for pecuniary and non-pecuniary benefits. Predictably, the arrangements between managers and employees on the one hand, and politicians and bureaucrats on the other, has been a major source of corruption in C&EE. Those arrangements have been characterized as “institutionalized stealing.”[20] It is then not surprising that politicians and bureaucrats prefer internal buyouts to other methods of privatization.

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[19] Mitra, P.and Selowsky, M., et.al., (2000), *Transition-The First Ten Years: Analysis and Lessons for Eastern Europe and the Former Soviet Union,* The World Bank, p. 75.
[20] Milovanovich, M. (2002), “Endogenous Corruption in Privatized Companies,” unpublished manuscript.

The Convergence of Justice and Economic Efficiency. If the right of ownership in state-owned assets belongs to all citizens C&EE governments should seek the lowest cost method for transferring those assets to their owners. This section argues that the transfer of ownership rights to all citizens satisfy the requirements of both justice and economic efficiency.

As a side note, losses suffered by non-communists during the socialist rule were not the same across the range of individuals. The transaction costs of calculating those costs on a person to person basis are too high and beyond the scope of this paper. Therefore, analysis does not go into the issue of who should get how much from the sale of state-owned assets. For the purpose of this paper, the important point is that the value of privatized assets remains in the private sector.[21]

Of all the different methods of privatization that have been tried in C&EE since the early 1990s, only the voucher privatization comes close to having all citizens share in the benefits of privatizing state owned assets.[22] However, the voucher privatization created a large dispersion of shareholding. And a large dispersion of shareholding in the region with rudimentary financial markets and non-credible property rights produced considerable agency costs. The resulting high transaction costs of controlling the behavior of managers increased their discretionary powers. Predictably, managers and employees made numerous "arrangements" with politicians, bureaucrats and investment funds. Hence, the voucher privatization helped neither the respect for private property rights, nor incentives to seek the most efficient use of privatized assets.

All other methods of privatization we observe in C&EE have one common characteristic: C&EE governments have kept the proceeds from the sale of state-owned assets. Some governments spent those proceeds on various social programs. Others use them to subsidize employment in bankrupt companies. Some governments deposit the proceeds in various state-controlled development funds. And some use the proceeds to

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[21] It is likely that the marginal costs of calculating individual losses would exceed the benefits long before all citizens could be compensated for their pain and suffering during socialist years. I owe this point to professor Milic Milovanovich.

[22] Government gives away or sells for a nominal fee vouchers to all citizens. They can them sell those vouchers in the market or use them to purchase shares in business enterprises.

balance their budgets. A comprehensive study on institutional restructuring in Serbia said:

> Privatization has been reduced to the selling of state owned property for the sake of ensuring the liquidity of the budget. This is wrong because privatization proceeds should not end up in current spending…Moreover, there are no precise records on how these resources are spent, which compromises both the transparency and efficiency of the entire process.[23]

Let us now compare the efficiency consequences of all those methods of privatization that, in effect, give C&EE governments the right of ownership in the value of privatized assets with the one that assign the right of ownership in the proceeds from privatization to all citizens.

Suppose that an asset X is to be privatized. In the absence of competitive markets, we really do not know the market value of that asset. Assuming that it is worth $1,000 simplifies our discussion without changing its outcome. Suppose the government sells asset X for a negotiated price of, say $750.[24] We have seen that compared to internal buyouts, selling X to a foreign buyer would do more for the efficiency of X (or $1,000 worth of resources). However, in either case, the efficiency of (X) will be greater than before privatization. Otherwise, the entire process of privatization in C&EE (and the rest of the world) would make no sense.

Assume that the state keeps the proceeds from sale of (X). The private sector then receives $1,000 worth of resources (asset X), and transfers $750 worth of resources (as cash) to the government. The government then ends up controlling $250 worth of resources less than it did before privatization. The sum total of resources in the economy before and after the sale of (X) is the same; however, the allocation of those resources is not. In this case, privatization of (X) transfers $250 worth of resources from the public to the private sector of the economy.

[23] *Transition report for Serbia and Montenegro*, (Jovanovich, A. and Vukotich, V. eds.), G17 Institute, Belgrade, 2004, p. 137.
[24] Using different numbers would not change conclusions.

Since spending \$1 in the private sector is more efficient than spending the same dollar in the public sector, the privatization of asset (X) makes the economy better off. This proposition is consistent with the finding of most researchers that privatization improves the efficiency of state-owned assets.

Assume now that C&EE governments assign the right of ownership in state-owned assets to all citizens. Once again, the private sector receives \$1,000 worth of resources (asset X), and transfers \$750 worth of resources to the government. However, the government returns (via tax refunds or any other means) the entire sum of \$750 to the private sector. While the sum total of resources in the economy is still the same, the private sector now controls \$1750 worth of resources; the value of (X) plus \$750 returned to private individuals. The privatization of asset (X) would have, in this case, made the economy better off by \$1000 worth of resources compared to \$250 in the previous case.[25] Given the fact that spending \$1 in the private sector is more efficient than spending the same dollar in the public sector, the assignment of property rights in state-owned assets to their true owners creates incentives to maximize the efficiency gains from privatization.

[25] Selling X to a foreign buyer would not change analysis. The government would still have a choice between keeping \$750 or returning the entire amount to all citizens.

Conclusions

It is predictable that private firms outperform state firms. Thus, it is not a surprise that the privatization of state-owned assets in C&EE has improved the efficiency of privatized resources. However, improvements in the efficiency of privatized assets should not be confused with the success of privatization in attaining its initial objectives. The paper finds that the privatization of state-owned assets has failed to contribute to its initial objectives: the acceptance of capitalism and the development of institutions that create incentives for individuals to seek and exploit all the potential gains from voluntary interactions. Analysis identifies the reliance on neoclassical economics, the absence of de-communization in C&EE, and the unwillingness of new elite in the region to enforce the right of ownership in state-owned assets as three critical factors responsible for the failure of privatization

One does not have to be a public choice scholar to understand why C&EE governments have not assigned the right of ownership in state-owned assets to their citizens. Government leaders derive their power and influence from the size of their budgets. Hence, it is in their self-interest to behave as if the state owned privatized assets and to keep the proceeds from selling them.[26]

[26] Excuses for keeping the proceeds are usually very flimsy. At a conference in Budapest early in the 1990s, the minister for privatization said that the state is not in business of giving away the national wealth. Clearly, the Minister chose to ignore the fact that privatizing state-owned assets and giving the proceeds to all citizens does not change the stock of productive assets. It only changes their legal owners.